COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1436-06
Bill No.: Perfected HS for HCS for HBs 404, 324, 403, 344, 426 & 541
Subject: Public Service Commission; Utilities
Type: Revised
Date: April 29, 2003
Revised per Oversight Sub-Committee Meeting April 29, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue #	($34,295)	($32,038)	($32,798)
Total Estimated Net Effect on General Revenue Fund #	**($34,295)**	**($32,038)**	**($32,798)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Public Service Commission Fund*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

*Assumes costs to the Fund of $176,677 to $383,709 for FY 2004, $217,449 to $472,258 for FY 2005, and $222,010 to $482,357 for FY 2006, with offsetting increases in assessments against regulated utilities.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 31 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development, Office of Public Counsel (OPC)** assume this proposal consolidates five pre-filed House bills regarding the regulation of investor owned utilities into one bill. The HCS changes multiple paragraphs of Section 393. These changes will have a dramatic impact not only on the way the OPC must conduct daily affairs, but also creates significant additional regulatory oversight and processes. This bill changes the existing regulatory paradigm by replacing financial incentives, similar to competitive markets, with increased regulatory oversight to ensure efficient performance by monopoly providers of essential utility services to our state. This increase will result in additional staff requirements and consulting funds for specialized expertise.

OPC assumes the fiscal impact, of the additional FTEs and E&E required by this consolidated bill, is less than the total of the fiscal impact for similar costs of the five bills individually. This reflects anticipated impact of efficiencies from cross-training, responsibility sharing, and other responsible management practices employed to face a multi-pronged increase in responsibility.

ASSUMPTION (continued)

Section 393.1009 through 393.1015 of this proposed legislation would significantly increase the work load associated with the review of natural gas company investments and expenses for the five major natural gas utilities (three having multiple operating divisions with separate tariffs).

This bill would provide for, on a stand-alone basis, semi-annual reviews and investigations of various investments in plant in service and related expenses along with investments and investment related expenses in security measures and direct expenses for security measures. These investigations are normally performed during rate cases whose frequency ranges from once a year to up to once every seven to ten years depending on the utility involved. The legislation requires a utility using the rate increase provisions to file a rate case at least every three years, if not required sooner due to the allowed total revenue increase limits in the legislation. OPC does not currently have sufficient resources to take on these additional tasks.

Sections 393.1000 through 393.1006 would allow a water corporation to request large increases in water rates from the Public Service Commission within a short time frame. The Office of the Public Counsel would have a duty to conduct a detailed analysis in any case based upon such requests. The bill provides for charges related to infrastructure main replacements for water corporations outside the normal rate case procedures, through the addition of a surcharge to customers' bills.

This substitute does not provide for any review of the reasonableness and prudence of costs associated with water mains for which an Infrastructure System Replacement Surcharge (ISRS) is allowed until the company files a general rate increase case, or if the ISRS surcharge exceeds 10% of base revenue. At such time OPC would anticipate the need to review the prudence of the costs incurred relating to the water main replacements and the associated planning process would occur in the general rate proceeding.

In the past, OPC has filed extensive engineering testimony relating to water main replacement programs and participated in extensive negotiations and planning of how the company should address the problem. The issue of developing a systematic plan to address the decision process of when to replace water mains was first raised by OPC in the mid 1990s. OPC no longer has an engineer on staff; therefore, it would be required to either hire a engineer or retain a consultant in this field of expertise in order to provide analysis in any water rate case in which a company has implemented an ISRS surcharge. The legislation requires a utility using the rate increase provisions to file a rate case at least every three years, if not required sooner due to the allowed total revenue increase limits in the legislation.

ASSUMPTION (continued)

In addition, imposing an ISRS would likely require OPC to investigate and audit water corporations that impose such surcharges to ensure that corresponding decreases in other costs are recognized in rates. This will shift the burden to consumers to prove in earnings complaint cases that rates need to be reduced to reasonable levels. There is a potential for complex issues to develop in these cases involving the interplay of the single-issue ISRS increases and general water rate issues. OPC anticipates being able to address these issues with current accounting expertise; however, the nature and frequency of these issues could strain current resources and require further fiscal impacts in the future.

Section 393.1018.1 would create an additional procedure for electric, gas, and water utilities to request rate increases for "security measures". OPC anticipates that it would need to participate in 18 additional cases before the PSC per year. This is based on the assumption that there would be one case per year for each regulated electric company (5), each natural gas company (9), each large water company (1), and approximately three (3) of the small water companies. OPC does not currently have sufficient resources to handle this additional workload.

Section 393.1018.2 would create an additional procedure for an electric company to request an increase in rates for the relocation of facilities. OPC anticipates that it would need to participate in 5 additional cases per year before the PSC (one case per year per operating division of a regulated electric company).

Section 393.158 of this proposed legislation would significantly increase the work load associated with fuel expenses for electric utilities. Currently, fuel is primarily addressed only during rate cases (or complaint cases which has been the situation for several electric utilities over the past decade). The frequency of said cases has occurred once every 2-4 years per electric utility. This legislation would increase those reviews to once a month for each utility (4 major electric utilities, one of which has 2 separate divisions). Note a utility with a rate change moratorium in place could not use this procedure until the moratorium is over.

ASSUMPTION (continued)

Section 393.156 of the proposed legislation would significantly increase the work load associated with the review of electric company and natural gas company investments and expenses for the five major electric companies (one with multiple divisions) and the four major natural gas utilities (three having multiple operating divisions with separate tariffs). This bill would provide for, on a stand-alone basis, reviews and investigations of various investments in "plant in service" and related expenses for “facilities” whose cost exceeds specified cost floors provided for in the bill. Additionally, all purchase power contracts providing for purchases in excess of $5 million may also be reviewed. The PSC would be required to issue an order stating the rate making treatment to be afforded these investments and expenses within 180 days of application by the utility. The cost of investments and purchased power expenses are normally performed during rate cases (also complaint cases) whose frequency ranges from once a year to up to once every seven to ten years depending on the utility involved.

This bill eliminates the economies of scale and scope associated with rate case audits by isolating certain tasks from the rate process and effectively adding reviews currently not performed. For example, purchase power contracts entered into and completed in between rate cases are not now routinely reviewed. OPC does not have sufficient resources to take on these additional tasks.

Both additional procedures created by Section 393.156 would be expedited procedures that create an extra burden on the small staff of the Office of the Public Counsel.

This bill dramatically increases the workload for OPC. This bill would result in requests to increase bills for all customer classes that receive service from Missouri natural gas utilities, Missouri water utilities and Missouri electric utilities. This bill would require customers to pay higher rates without timely consideration of offsetting factors which are directly created by the investments this bill would allow natural gas and electric utilities to raise rates and thereby customers bills.

This legislation would require OPC to participate in additional rate cases because the bill mandates those cases to bring rates back into balance with the necessary overall revenues. This bill also creates the potential for unforeseen complex issues to develop in these cases due to the interplay of the single-issue nature of the ISRS increases, fuel cost changes, or infrastructure rate increases and general rate cases (and complaint cases to reduce rates).

ASSUMPTION (continued)

This bill also mandates a rate design for ISRS charges that places a disproportionate share on low use customers relative to the demand they place on the system. Thus more frequent general rate cases would be necessary to eliminate the excess rates paid by small customers. These cases would most likely need to be initiated by OPC and require additional expert testimony to provide the requisite burden of proof.

This legislation would also create the need for additional rate investigations to determine if rate increases associated with the various mechanisms provided for in this bill should be offset with rate decreases related to other financial or operational factors.

A Fuel Adjustment Clause (FAC) eliminates certain economic incentives associated with generation resource planning, fuel procurement procedures, and generating unit loading procedures, thus increasing the need to ensure ratepayers do not pay the higher resulting costs.

This bill also creates the potential for unforeseen complex issues to develop in subsequent rate cases and rate complaint cases due to the interplay between the predetermination of rate making principles and the requirement that the PSC set just and reasonable rates. A review of each major investment along with specified purchase power contracts undertaken by electric and gas utilities places the Office of Public Counsel and ultimately the PSC in a situation where it must constantly review management decisions.

The Office of the Public Counsel would require seven additional FTEs (accountants (2), engineer, economists (2), attorney and support staff person) as a result of the annual duties created by this legislation. In addition, OPC would also need to retain outside consultants to provide input in various areas of expertise.

OPC anticipates the need to perform approximately two-three additional general rate investigations per year along with resulting complaint cases. OPC would, therefore, also require approximately $80,000 in consulting expenses to perform these audits and investigations of the overall cost of service, this being the most economical method of addressing this need.

ASSUMPTION (continued)

In addition, OPC would need to retain outside consultants to provide specialized expertise in the areas of utility plant planning and purchase power contract analysis, including native load generation alternatives. OPC anticipates the need to perform two general investigations per year (one for an electric and one for gas). OPC would require a consulting contract allowing for as needed service in order to respond to the limited time frame provided for under the bill.

This bill would also require OPC to purchase an economic electric dispatch model software which would cost approximately $40,000. (This is the amount the Public Service Commission paid for theirs.) The annual license for the Fuel Model would run in the neighborhood of $4,000. (Price previously quoted from the Public Service Commission's existing annual license cost.) OPC projects that the FY 2004 cost for the license fee would be due July/August, 2003.

Section 393.158 effectively requires a rate case prior to implementation by any company. A rate case for each company would have been required nonetheless to determine specific fuel costs in order to prevent the FAC from providing double compensation from ratepayers. OPC would need to hire "fuel consultants" for the rate case necessitated by this bill, for each electric company, at $40,000 per audit.

The current base rates of each of the four major electric utilities were set based on negotiated settlements. Said settlements specifically excluded specific findings as to the level of any specific cost that made up the overall cost of service. Further the signatories to the agreement expressly state they will NOT assert to any such findings. Absent the specific finding as to the level of costs currently reflected in base rates, a determination of a change from an unspecified level cannot be made.

Outside consultants would be able to provide specialized knowledge in the areas of purchase power contracts and related generation alternatives. OPC anticipates using the consultants for an average of one electric and one gas case each fiscal year at $45,000 per case. OPC assumes it would be most efficient to request bids for these consulting services. These consultants (electric) would be acquired by bid for a three year renewal contract due to the time considerations required under this bill.

ASSUMPTION (continued)

The two Public Utility Accountant I positions would be needed to collect, correlate, and verify the additional data associated with the various filings allowed for by the proposed bill. The accountant would have to audit the data for authenticity and perform reviews of the annual reports upon which this bill requires reliance. This bill allows for a maximum of 23 filings per year by the utilities. In addition, an annual review is required for to true-up the actual results to the budgeted data used in determination of the initial ISRS charge. Additional filings could result from a multi-divisional utility choosing to file separate ISRSs for each division along with the eight smaller natural gas utilities choosing to file an ISRS under the provisions of this bill.

An additional Public Utility Accountant I would be needed to collect and correlate the additional data associated with fuel and purchase power. Also, these accountants would have to perform audits on the fuel purchasing decisions of the company. This includes the potential twelve filings made per year per company, plus a true-up audit to determine the actual purchasing activities.

An engineer would be required to analyze the various planning and implementation procedures associated with the construction of plant in service. This position could also be utilized to coordinate and supplement testimony on the prudence of security measurers and relating to the relocation issues mentioned in Section 393.1010. In addition, the bill provides for expedited PSC review of any matter associated with questions of prudence of the plant in service. Additional outside consultants would not likely be able to respond in time to infrastructure issues, given the time periods provided for in the bill, the learning curve associated with each utilities specific circumstances, and the time period related to procuring the services of outside consultants. The number of cases an engineer would be involved in and would have to address would be consistent with the participation previously stated with respect to the auditor and the engineer.

The economists would be required to address the resulting rate design issues that arise by the mandate contained in this bill regarding the ISRSC charge and the new electric rate recovery procedures. The number of cases an economist would be consistent with the participation that has been previously stated with respect to the accountant and the engineer.

The economists would be needed to assist in performing economic electric dispatch modeling and resulting fuel and purchased capacity costs of each utility to determine the accuracy of each company's request to recover these costs, and to investigate purchased capacity and energy costs to determine whether the utility performed in a prudent and reasonable manner in purchasing capacity and energy. These duties would be performed on an annual basis.

ASSUMPTION (continued)

An engineer and an economist would also be utilized to analyze the various planning and implementation procedures associated with the construction of plant in service. The engineer would be required to look at the technical questions related to plant investments and alternatives and power flows over the transmission grid as it relates to purchase power contracts. An economist would investigate the economic consequences and outcomes of the various alternatives proposed to ensure that the most efficient alternative is being proposed. In addition, the bill provides for expedited PSC review of any matter associated with questions of prudence of the plant in service. OPC anticipates this bill would greatly increase the flow and analysis of information regarding the utilities plant investment practices and power purchasing procedures.

An attorney (Assistant Public Counsel) would be needed to represent consumer interests and coordinate OPC evidence in the 23 additional new procedures and four additional rate complaint cases per year created by this legislation in addition to other related filings.

OPC already experiences a low support staff/professional ratio. With the addition of six full-time professional positions, our current two support staff positions would be experience a doubling of current responsibilities. An additional support staff position will be necessary to maintain the level of support required to existing and requested professional staff personnel.

As to space and accommodations for the 7 new employees within the Office of Public Counsel, current workspace would not be adequate. Existing space with modifications would allow for a maximum of three professional employees and one support staff. Additional space may be available on the same floor in current location but such an acquisition would impact the Public Service Commission, which currently has staff located there. Cubicles and furnishings would need to be furnished for new technical and legal personnel. A cubicle already exists for the clerical position. Also necessary equipment would include seven computers, an additional printer and copy machine.

Officials from the **Department of Economic Development, Public Service Commission (PSC)** assume House Bills Number 404, 324, 403, 344 & 426 are combined as provided for in the HCS. Please see the following "Summary of Staffing Assumptions for House Committee Substitute for House Bills Number 404, 324, 403, 344 & 426 for Fiscal Notes 1436-02N and 1436-04N." Staff summary analysis assumes that if evaluated individually, the FTE estimates would be greater.

ASSUMPTION (continued)

Summary of Staffing Assumptions for House Committee Substitute for House Bills Number 404, 324, 403, 344 & 426 for Fiscal Notes 1436-02N & 1436-04N:

In reviewing this House Committee Substitute as one complete package of legislation and reviewing it in terms of its different provisions, a number of assumptions regarding how the number of FTEs was arrived at are important to understand. PSC assumes the utilities that have the option to utilize the provisions of this legislation will do so if they believe that any increase in revenues may result from this effort. In fact, it is their fiduciary responsibility to do so if they believe that revenues will be enhanced. Many of the provisions of this legislation may result in increased revenues for the regulated electric, natural gas and water utilities in Missouri, and at a minimum would result in a reduction of regulatory lag and thus enhance the collection of revenues from a timing viewpoint.

The portions of this legislation that relate to regulated energy utilities in the state will apply to the following utilities:

Natural Gas (7 utilities with a total of 17 districts)
Laclede Gas Company
Missouri Gas Energy
AmerenUE (w/districts PEPL, WNG, and TETCO)
Southern Missouri Gas Company
Fidelity Natural Gas
Aquila (w/districts MPS and SJLP)
Atmos Energy Corporation (w/districts SEMO, Kirksville, Neelyville, Hannibal/Canton, Bowling Green, Palmyra, Greeley, Butler)

Electric (5 utilities with a total of 6 districts)
AmerenUE
Kansas City Power & Light Company
Empire District Electric Company
Citizens Electric Corporation
Aquila Networks (w/districts MPS and L&P)

ASSUMPTION (continued)

When looking at the broad impacts of this bill it may be helpful to be aware of the following statistics: Based on 2000 census information the state of Missouri has approx. 2.2 million households with an average number of people per household of 2.48. The median household income is approx. $37,900. In 2000 over 70% of the households in Missouri (over 3.8 million people) were dependant upon a regulated electric utility for service and almost 60% of the households in Missouri (almost 3.2 million people) were dependant upon a regulated natural gas utility for service. In 2000 the average Missouri residential customer paid over $870 for electric service and over $650 for natural gas service (before taxes). This bill will potentially result in new surcharges that can regularly change on both electric and natural gas bills for a significant majority of the state's population. All customers of regulated natural gas and electric utilities (residential, commercial, and industrial) will feel these impacts.

In looking at the potential number of additional filings that this bill could result in it is necessary to look at the different provisions that the proposed legislation contains separately. A review of these different provisions yields the information below. A more detailed description of how these numbers were arrived at is provided in the sections that follow.

Previous House Bill	Assumed # of Filings	Possible # of Filings
426	17	41
324	32	92
403	30	36
344	64	161
	143 Filings	330

The analysis of this bill has been broken out below based on each of the provisions previously contained in the noted house bills.

HB 426 – Water Utility Infrastructure System Replacement Surcharge (ISRS) & Security Cost Surcharge (SCS)

Fiscal Note Impact: PSC assumes the following additional workload:

ASSUMPTION (continued)

- New semi-annual (2 times per year) filings from qualifying water utilities (1 utility with operating districts with separate rate structures) that will include assessments of ISRS costs by PSC within 60 days and which must have a determination made by the Commission within 120 days;

- New regular (no limits as to how often) filings from up to 70 water utilities that will include security measure assessments, cost reviews, and prudence reviews. (Although the language of the bill applies to all PSC regulated water utilities, it is not anticipated that more than the one largest utility and perhaps five of the larger "small" water utilities will actually use these provisions.);

- New annual reviews of ISRS true-up reconciliations with PSC recommendations and PSC determinations on refund or collection balances. (As the bill is currently written, it appears these reviews will also be subject to the 60-day and 120-day time limits.);

- New regular (during rate cases –approximately every 3 years) prudence audits on ISRS expenses and charges; and

- Potential increase in level of consumer inquires and complaints.

Additional Number of Filings Estimate:

Infrastructure Surcharge (Missouri-American Water Company)

First year minimum = 4 filings (original petition, 2 adjustments and reconciliation for the former St. Louis County Water Company service area)

Ongoing minimum = 3 filings annually (2 adjustments and reconciliation for the former St. Louis County Water Company service area)

First year maximum = 36 filings (original petition, 2 adjustments and reconciliation for 9 districts)

Ongoing maximum = 27 filings annually (2 adjustments and reconciliation for 9 districts)

ASSUMPTION (continued)

Security Surcharge

Initial MAWC filings = 9 (one for each district)

Additional MAWC filings = 9 annually (1 adjustment for each district)

Filings by other PSC water utilities are essentially impossible to anticipate as most other such utilities are very small and unlikely to be doing anything that would justify a filing. However, there are 10 other water utilities that are large enough and sophisticated enough that they may take advantage of the surcharge. For estimating purposes, PSC assumes that 5 of these 10 would do so, but would likely only have an annual adjustment after the initial filing. This would result in 5 additional initial filings and 5 additional annual filings (for a total of 14 initial filings and 14 annual filings thereafter).

Requested FTEs:

Currently asking for 4 FTEs, based upon the additional number of filings and issues to be addressed in an expedited time frame. Adjudication impacts are described below in the section titled "ADJUDICATION DIVISION ANALYSIS OF FISCAL NOTE IMPACT FN 1436-02 & 1436-04." Additionally, synergies with FTE requests related to other provisions of this HCS and with existing staff were taken into consideration, which resulted in requests not being included in the analysis for this portion of the bill for a Consumer Service Specialist and an attorney for the General Counsel's Office.

1 Rate & Tariff Examiner II for regular and semi-annual needs assessments, cost eligibility, true-up audit assistance, review of necessary tariff revisions (which will occur with every filing) and presentation of testimony related to ISRS and SCS filings in hearings before the PSC.

1 Utility Engineering Specialist II for regular and semi-annual needs assessments, cost eligibility, true-up audit assistance, review/inspection of facility installations being recovered through an ISRS or a SCS and presentation of testimony related to ISRS and SCS filings in hearings before the PSC.

1 Auditor IV for supervisory type work related to the regular and semi-annual construction cost audits, true-up audits and prudence assessments. (This is a "combined" position that is also related to the additional Accounting Department auditors being requested for the electric and gas industry related bills on the same subject.)

ASSUMPTION (continued)

1 Auditor III for conducting the actual audit work related to the regular and semi-annual ISRS and SCS filings.

HB 324 – Predetermination of Ratemaking Treatment

Fiscal Note Impact: PSC assumes the following additional workload:

- New regular (no limits as to how often) filings from electric and gas utilities (5 electric utilities with 6 districts and 7 gas utilities with 17 districts) that will include assessments of need, anticipated costs, appropriate ratemaking treatment, cost audits, testimony rounds (direct, rebuttal and surrebuttal) and hearings for each for PSC decision – all to support 180 day cycle;

- New regular (no limits as to how often) prudence audits on the cost of facilities and contracts after facilities or contracts have been built or executed; and

- Any reductions in future rate cases are expected to be overshadowed by increased complexity in tracking of separate agreements in past rate cases and possible earning complaint cases.

Additional Number of Filings Estimate:

Assumed that the 3 largest gas utilities will file every 6 months and at least 1 of the smaller gas utilities will file every 6 months. This adds up to 8 gas filings per year.

Assumed that the 3 largest electric utilities will file every 6 months and at least 1 of the smaller electric utilities will file every 6 months. This adds up to 8 electric filings per year.

These filings would be in addition to the 4 PGA filings per year that PSC currently receives from each of the natural gas utilities.

All of the filings above will be accompanied by prudence audits that are assumed to occur with each case where actual costs audits will also be performed. This adds up to 16 prudency/cost true-up audits.

Total Number of Filings Used for FN Estimate = 32 per year

ASSUMPTION (continued)

If all gas and electric utilities filed every 6 months (bill does not contain any limits on frequency) the actual number of filings could be as high as 92 per year.

Requested FTEs:

PSC is currently asking for 4 FTEs. This is based on additional number of complicated filings and issues to be addressed in an expedited time frame. Adjudication impacts are described below in the section titled "ADJUDICATION DIVISION ANALYSIS OF FISCAL NOTE IMPACT FN 1436-02 & 1436-04."

2 Engineers – 1 for electric and 1 for gas, for regular need assessments, construction and contract cost audits, and prudence audits.

2 Auditors – 1 for electric and 1 for gas, for regular cost reviews and audits, appropriate ratemaking treatment assessments, and prudence audits.

PSC did not ask for the following additional FTEs based on existing staff synergy:

1 Regulatory Engineer I – Assumes existing staff engineers will be at least partially available to assist in need assessments and construction cost reviews.

2 Regulatory Auditors III – Assuming existing auditors and financial analysis, PSC will be at least partially available to assist in appropriate ratemaking treatment assessments and cost audits.

HB 403 – Electric Fuel & Purchased Power Adjustment Clause

Fiscal Note Impact: PSC assumes the following additional workload:

- New monthly electric surcharge filings (5 utilities with 6 districts) that will include number checks and staff recommendations for each for PSC decision. All to support a mandatory 30 day time frame;

- New annual true-up audits of all incurred fuel expenses and revenues – will result in annual cases before the PSC to determine ACA balances;

ASSUMPTION (continued)

- New annual prudence audits of all fuel and purchased power decisions – will result in annual cases before the PSC to address any prudence issues;

- Potential increase in level of consumer inquires and complaints; and

- May result in a reduction in rate cases (possibly Empire and Aquila).

Additional Number of Filings Estimate:

PSC assumes all the utilities other than Citizens Electric (UE, KCPL, Empire, Aquila MPS, and Aquila L&P) will file monthly electric fuel adjustment clauses. This adds up to 20 fuel adjustment filings per year.

Each of these 5 utilities will be subject to true-up audits. This adds up to 5 true-up audits per year.

Each of these 5 utilities will be subject to prudency audits. This adds up to 5 prudency audits per year.

Total Number of Filings Used for FN Estimate = 30 per year

If all electric utilities filed every month the actual number of filings could be as high as 36 per year.

Requested FTEs:

PSC is currently asking for 8 FTEs. This is based on current resources to address natural gas PGA/ACA process that this bill would create for the electric utilities – EVEN THOUGH ELECTRICITY PROCUREMENT AND PRUDENCE ASSESSMENT IS MORE COMPLICATED*. Adjudication impacts are described below in the section titled "ADJUDICATION DIVISION ANALYSIS OF FISCAL NOTE IMPACT FN 1436-02 & 1436-04."

1 Manager – Responsible for organizing PSC cases and assigning staff. The manager will act as an expert witness in some cases with new or difficult to understand issues. Also this FTE would be reponsible for administrative functions.

ASSUMPTION (continued)

1 Engineer – Responsible of modeling of generation options available to each utility with an objective of optimizing operation of the utility for least costs.

4 Auditors – Responsible for conducting the annual true-up and prudency audits of the expenses and revenues associated with the energy adjustment surcharges.

1 Rate & Tariff Examiner – Responsible for reviewing and quickly responding to monthly energy adjustment filings.

1 Senior General Counsel – Responsible for coordinating cases before the PSC with involved staff and representing staff in hearings before the PSC.

*Natural gas procurement and delivery involves gas supply basins and contracts, transportation pipelines and contracts, storage fields and contracts, appropriate planning, hedging and reliable service. Electric generation and delivery is fundamentally different. Electric utilities do not typically purchase fuel for direct delivery. Fuel is used by electric utilities to generate electricity, and they have options as to which fuels to use, when to use them, where to buy them, which units to operate, which units to take down for maintenance, when to perform maintenance, what hedging strategies to pursue, what excess power they can sell, and which power purchase contracts to execute as well as many other management decisions. All of these decisions have direct impacts on fuel and purchased power cost.

PSC did not ask for the following additional FTEs based on existing staff synergy:

1 Regulatory Engineer I – Assumes that existing engineers will be at least partially available to assist in generation option evaluations. Also, assumed reduced rate case load (primarily Aquila and Empire) may provide for engineers running Realtime model to be at least partially available to handle runs when numerous cases involving unusual circumstances converge.

1 Regulatory Economist II – Assumes that existing economists in the Energy Department will be at least partially available to handle market/pricing issues that come up in cases.

2 to 3 – Regulatory Auditors III – Assumes that existing auditors will be at least partially available to assist in true-up and prudency audits during times when numerous cases with significant surcharge increases occur at the same time. Also, assumed reduced rate case load (primarily Aquila and Empire) may provide for available auditors to check filing numbers and assist in true-up audits.

ASSUMPTION (continued)

HB 344 – Infrastructure System Replacement & Security Charges (Natural Gas & Electric Utilities)

Fiscal Note Impact: PSC assumes the following additional workload:

- New semi-annual (2 times per year) filings from electric and gas utilities (5 electric utilities with 6 districts and 7 gas utilities with 17 districts) that will include assessments of ISRS costs by PSC within 60 days and must have a determination made by the PSC within 120 days;

- New regular (no limits as to how often) filings from electric and gas utilities that will include security measure assessments, cost reviews, and prudence reviews;

- New annual reviews of true-up reconciliations with PSC recommendations and PSC determinations on refund or collection balances;

- New regular (during rate cases – maybe every 3 years) prudence audits on ISRS expenses and charges;

- Potential increase in level of consumer inquires and complaints; and

- Unlikely reduction in natural gas rate cases since most LDCs don't come in more often than every 3 years. Electric utility rate case impacts are difficult to assess but the likelihood of earning complaint cases is increased. Legislation would increase the likelihood that 3 year intervals would occur between rate cases.

Additional Number of Filings Estimate:

ASSUMPTION (continued)

Natural Gas ISRS Cases

PSC assumes that the 3 largest gas utilities will file every 6 months and at least 2 of the smaller gas utilities will file every 6 months. This adds up to 10 gas filings per year.

All of the filings above will be accompanied with annual true-up audits. This adds up to 5 gas filings per year.

Total Number of Filings Used for FN Estimate = 15 per year

If all gas utilities (7 utilities with 17 districts) filed every 6 months the actual number of filings could be as high as 51 per year.

Electric ISRS Cases

PSC assumes that the 3 largest electric utilities will file every 6 months and that both districts of Aquila will file every 6 months. This adds up to 10 electric filings per year.

All of the filings above will be accompanied with annual true-up audits. This adds up to 5 electric filings per year.

Total Number of Filings Used for FN Estimate = 15 per year

If all electric utilities (5 utilities with 6 districts) filed every 6 months the actual number of filings could be as high as 18 per year.

Natural Gas & Electric Security Measures

PSC assumes that the 3 largest gas utilities will file every 6 months and that both districts of Aquila and 1 smaller gas utility will file each year. This adds up to 9 gas filings per year.

PSC assumes that the 2 largest electric utilities will file every 6 months and that both districts of Aquila and Empire will file each year. This adds up to 7 electric filings per year.

ASSUMPTION (continued)

The companies listed above (5 gas and 4 electric) will each be subject to annual true-up and prudency audits (assumed annual). This adds up to 18 filings per year (9 true-up and 9 prudency).

Total Number of Filings Used for FN Estimate = 34 per year

If all gas and electric utilities (5 electric utilities with 6 districts and 7 gas utilities with 17 districts) filed every 6 months that actual number of filings could be as high as 92 per year.

Requested FTEs:

PSC is currently asking for 5 FTEs. This is based on additional number of filings and issues to be addressed in an expedited time frame. Adjudication impacts are described below in the section titled "ADJUDICATION DIVISION ANALYSIS OF FISCAL NOTE IMPACT FN 1436-02 & 1436-04."

2 Rate & Tariff Examiners – 1 for electric and 1 for gas, for regular and semi-annual need assessments (with help of other staff), cost eligibility, and true-up audit assistance.

1 Auditor – 1 for electric and gas, for regular and semi-annual construction cost audits, true-up audits, and prudence assessments with significant assistance from other staff (as available).

1 Senior General Counsel – Responsible for coordinating cases before the PSC with involved staff and representing staff in hearings before the PSC.

1 Consumer Service Specialist – For responding to additional phone calls on surcharges on natural gas and electric bills.

PSC did not ask for the following additional FTEs based on existing staff synergy:

2 Regulatory Engineers II – Assumes that existing staff engineers in Gas Safety and Engineering will be at least partially available to assist in eligibility of ISRS cost, construction cost audits, and prudence reviews.

ASSUMPTION (continued)

2 Regulatory Auditors III – Assumes existing auditors would be at least partially available to assist the auditor listed above.

1 Consumer Service Specialist I/II – Assumes existing consumer service specialists would be at least partially available to handle additional number of calls on natural gas and electric surcharges.

ADJUDICATION DIVISION ANALYSIS OF FISCAL NOTE IMPACT
FN 1436-02 & 1436-04

Request: 4 Judges, 3 Paralegals

PSC assumes, based on the detailed analysis set out below, the additional FTE request by the Adjudication Division is quite conservative given the actual workload increase that these provisions would necessarily entail. Adding up the FTE below, the cumulative impact is 6 Judges and 2 Paralegals. However, to a certain level, paralegals can be used to free judges from various simple yet necessary tasks. This permits 1 Paralegal to be substituted for 2 Judges, resulting in significant salary savings to the state.

Number:	Contents:	Impact:
386.120	Residence of Commissioners	No impact
386.135	Advisory Staff	No impact
386.210	Ex Parte Contacts	No impact
386.374	Low Income Ratepayers	No impact

To the extent that this provision will result in additional work, the Adjudication Division can absorb it with existing resources.

386.900 Conflict of Interest No impact

393.156 Predetermination of Ratemaking Principles Impact:

ASSUMPTION (continued)

(See FN 786-03) 1 Judge, 2 Paralegals

This section allows electric and gas utilities to obtain, on an expedited basis, binding determinations from the PSC as to the ratemaking treatment to be accorded proposed new assets. Assuming that 4 electric utilities and 4 gas utilities file one such case every six months, that is 16 additional cases annually.* Moreover, each such case must be completed within 180 days of filing. Note that these cases will be in addition to the general rate cases in which such concerns were formerly addressed, because the company will still need a rate case to get the new assets into rate base. Because these cases will directly impact rates, interventions are to be expected. Such cases are often hotly contested, resulting in a large number of filings and intermediate orders over the life of the case. Where, as here, the case must be completed in an unusually short period of time, PSC believes it likely that such a case will absorb approximately one-third to one-half of the energy of the assigned judge during the 6 months of its life. Thus, this provision represents the equivalent of 8 additional rate cases annually. While some of this load can be absorbed with present staffing, all of it cannot. The 2 Paralegals and 1 Judge requested will free 3 seasoned Judges to handle these new cases.

*Note that the proposed legislation does not include any cap on the number of such cases each eligible utility may file annually.

393.158 Fuel Cost/Purchased Power Recovery Impact:

(See FN 0794-04) 1 Judge

This section allows electric utilities to recover fuel and purchased power costs via energy adjustment rate schedules filed either in a general rate case or outside of a general rate case at the option of the utility. The PSC must approve these on a “timely” basis. Each company may modify its rates as often as every 30 days, with an annual true-up. Assuming that each of 5 electric utilities participates and that fuel cost volatility continues such that monthly adjustments are made, that is 5 initial cases, 55 adjustments, 5 prudency, and 5 true-ups annually, a total of 70 additional cases. Because these cases will directly impact rates, interventions are to be expected in the initial and true-up cases.

ASSUMPTION (continued)

PSC assumes such cases are often hotly contested, resulting in a large number of filings and intermediate orders over the life of the case. Assuming that such tariffs can be suspended for the normal 11 months, it seems this provision represents the equivalent of 5 additional rate cases annually. While some of this load can be absorbed with present staffing, all of it cannot. PSC now believes that the Fiscal Note for 0794-04 underestimated the new staffing that this bill will require. The 2 Judges now requested will free 2 seasoned Judges to handle these new cases.

393.1000-1006 **Water Utility Infrastructure Recovery** **Impact:**

(FN 0304-04, 05) 1 Judge

This section allows water utilities serving over 10,000 customers (i.e., Missouri-American) to recover infrastructure replacement costs via a surcharge. Such proceedings would occur outside of a general rate case. Note that these cases will be in addition to general rate cases; in fact, the statute requires a general rate case at least every three years. The PSC must approve these within 120 days of filing. The company may modify its rates twice annually, with an annual true-up. The surcharge is subject to a complex adjustment to ensure that it is appropriately matched to the benefit each class of of customers receives from the infrastructure.

Assuming that Missouri-American participates, that will result in 4 additional cases annually (the initial case, 2 adjustments, and a true-up). Because these cases will directly impact rates, interventions are to be expected in the initial and true-up cases. Such cases are often hotly contested, resulting in a large number of filings and intermediate orders over the life of the case. Note that such tariffs cannot be suspended; consequently, it seems this provision represents the equivalent of 1 additional rate case annually. PSC assumes the 1 Judge requested will free 1 seasoned Judge to handle these new cases.

393.1009-1018 **Gas & Electric Utility Infrastructure Recovery** **Impact:**

(FN 0304-09) 1 Judge

ASSUMPTION (continued)

This section allows gas and electric utilities to recover infrastructure replacement costs via a surcharge. Such proceedings would occur outside of a general rate case. Note that these cases will be in addition to general rate cases; in fact, the statute requires a general rate case at least every three years. The PSC must approve these within 120 days of filing. The company may modify its rates twice annually, with an annual true-up. The surcharge is subject to an adjustment to ensure that it is appropriately matched to the benefit each class of customers receives from the infrastructure.

Assuming that 5 gas utilities and 5 electric utilities participate, that will result in 30 additional cases annually (2 adjustments, and a true-up for each of 10 utilities each year). Because these cases will directly impact rates, interventions are to be expected in the initial and true-up cases. Such cases are often hotly contested, resulting in a large number of filings and intermediate orders over the life of the case. Note that such tariffs cannot be suspended; consequently, it seems this provision represents the equivalent of 8 additional rate cases annually.

While some of this load can be absorbed with present staffing, PSC assumes all of it cannot. The 1 Judge requested will free 1 seasoned Judge to help handle these new cases. The 1 FTE requested for this provision takes into account other FTE requested for other provisions in this bill; otherwise, it would be higher.

393.1018 Security Cost Recovery Impact: 2 Judges

This section allows gas, electric and water utilities to recover security costs on an expedited basis, outside of a general rate case. Presumably, recovery would be by a surcharge. Note that these cases will be in addition to general rate cases; in fact, the statute requires a general rate case at least every three years. Assuming that each of 7 gas, 5 electric and only 1 water utility participates, that will result in 13 additional cases annually. Each of these utility cases would also be associated with true-up and prudency cases, which will result in 26 additional cases annually. Because these cases will directly impact rates, interventions are to be expected. Such cases are often hotly contested, resulting in a large number of filings and intermediate orders over the life of the case. Note that this was the experience in Missouri-American's recent AAO for security costs case. While some of this load can be absorbed with present staffing, all of it cannot. This provision will absorb the energies of 2 Judges on a full-time basis.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the requested OPC and PSC staff positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes the Public Service Commission would adjust assessments against regulated utilities to offset increased costs due to this proposal; however, the amount of assessment against regulated utilities is limited to one-forth of 1 percent (.0025) of gross intrastate operating revenues of all utilities under PSC jurisdiction. If assessments are insufficient to cover PSC costs, then the PSC would have to seek an increase in the amount which may be assessed or seek funding for the PSC from different sources.

 # The Oversight Subcommittee met on April 29, 2003, and voted to reduce the number of positions required to implement the proposal from 7 FTE to).5 FTE from the General Revenue Fund and from 32 FTE to a range from 2.75 FTE to 7.75 FTE from the Public Service Commission Fund, with commensurate reductions in the estimated costs for Fringe Benefits and Expense and Equipment.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
# Cost - Office of Public Counsel			
Personal Service (0.5 FTE)	($21,170)	($21,713)	($22,256)
Fringe Benefits	($8,468)	($8,685)	($8,902)
Expense and Equipment	($4,657)	($1,640)	($1,640)
Total Cost - OPC	($34,295)	($32,038)	($32,798)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($34,295)**	**($32,038)**	**($32,798)**

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
PUBLIC SERVICE COMMISSION FUND			
# Income - Increased Assessments on Regulated Utilities	$176,677 to $383,709	$217,449 to $472,258	$222,010 to $482,357
# Cost - Public Service Commission			
Personal Service (2.75 to 7.75 FTE)	($103,575 to $232,134)	($127,478 to $285,703)	($130,665 to $292,846)
Fringe Benefits	($44,641 to $96,063)	($54,942 to $118,232)	($56,316 to $121,188)
Expense & Equipment	($28,461 to $55,512)	($35,029 to 68,323)	($35,029 to $68,323)
Total Cost - PSC	($176,677 to $383,709)	($217,449 to $472,258)	($222,010 to $482,357)
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses could expect increases in electric, natural gas and water utility rates as a result of this proposal.

DESCRIPTION

This substitute makes numerous changes to laws regulating electric, gas, and water utilities.

PUBLIC SERVICE COMMISSION

Under current law, members of the Public Service Commission must reside within 40 miles of Jefferson City. This proposal requires commissioners to be Missouri residents. The bill also requires the PSC to retain a six-member technical advisory staff with expertise in accounting, economics, finance, engineering, utility operations, law, or public policy.

Each commissioner may also retain a personal advisor. All hiring of technical advisory staff members must be completed by July 1, 2004, and be offset through elimination of other PSC staff positions. Advisory staff members cannot be a party to any case before the PSC and are subject to the same ex parte and conflict of interest requirements as commissioners.

No one regulated by, appearing before, or employed by the PSC may offer advisory staff members new appointments or positions. No one leaving the advisory staff can be employed by the PSC in any other capacity for at least two years; and new advisory staff members cannot have been employed by the PSC, the Office of the Public Counsel, or any company regulated by the commission for at least two years before being hired.

The proposal allows commissioners to confer with others on matters not relating to filed cases. Commissioners may also confer with others on matters relating to pending or filed cases if no evidentiary hearing has been scheduled and if the matter is discussed at an announced public meeting or a forum where affected parties are present or if the discussion is subsequently disclosed to affected parties. If an evidentiary hearing has been scheduled, commissioners may only discuss matters relating to procedures or unanimous agreements that resolve a case fully.

DESCRIPTION (continued)

UTILITY CONTRACTS AND PROJECTS

The substitute allows gas and electric corporations, prior to entering into certain new contracts or construction projects, to file a petition with the PSC requesting a determination of rate-making principles that will be applied to costs prudently incurred over the term of the contract or useful life of the constructed facility. To be eligible, contracts must be for the purchase of at least $5 million of electric power, and projects must involve construction of a new electric or gas plant costing at least $5 million for companies serving from 100,000 to one million Missouri customers, or at least $25 million for companies serving more than one million Missouri customers.

After receiving the petition, if the PSC does not issue an order within 180 days, the rate-making principles proposed by the corporation will be considered approved. Within one year after the determination, the corporation must notify the PSC if it plans to participate in the contract or construction project. If the corporation decides not to participate, the determination will be invalid and have no precedential value in subsequent proceedings.

ENERGY COST ADJUSTMENTS (Section 393.158)

The substitute allows electric corporations to recover prudently incurred costs for fuel and purchased electricity through energy adjustment rate schedules. The schedules may be filed with the PSC separately or as part of a general rate proceeding. The PSC must allow modification of the rates as frequently as every 90 days to reflect changes in costs that are not reflected in the corporation's base rates. The PSC will establish a procedure to provide customer credits or refunds for any over-estimated costs and collections.

Each corporation that has an energy adjustment rate schedule on file with the PSC will submit a monthly adjustment report including calculation of the next month's energy adjustment rate. The PSC may only examine the calculations for accuracy and may not consider other costs or overall rates. The PSC’s decision on each proposed rate adjustment will become effective no later than 30 days after filing. Rates are not subject to suspension by the PSC.

DESCRIPTION (continued)

COST RECOVERY FOR INFRASTRUCTURE SYSTEM REPLACEMENT PROJECTS

The substitute allows gas corporations and water corporations serving more than 10,000 customers to file petitions with the PSC for rate adjustments that recover from customers prudently incurred costs for infrastructure replacement projects. Eligible projects may include replacement of deteriorating equipment, safety enhancements, and non-reimbursed costs of facility relocations required by highway and other public works construction. Projects may not increase revenue by connecting to new customers and must not have been included in the corporation's last general rate case.

PSC staff may examine the petition and submit a report within 60 days. The PSC may hold a public hearing and must issue an order that becomes effective within 120 days after the petition is filed. During its consideration of the petition, prudently incurred costs for infrastructure replacement projects.

Eligible projects may include replacement of deteriorating equipment, safety enhancements, and non-reimbursed costs of facility relocations required by highway and other public works construction. Projects may not increase revenue by connecting to new customers and must not have been included in the corporation's last general rate case.

PSC staff may examine the petition and submit a report within 60 days. The PSC may hold a public hearing and must issue an order that becomes effective within 120 days after the petition is filed. During its consideration of the petition, the PSC may not examine the corporation's other revenue requirements or rate-making issues.

Adjustment charges must appear on customer's bills as a separate charge and may only apply to classes of customers that receive benefits from the infrastructure replacement project. Charges must be applied in a manner consistent with the customer class cost-of-service study from the corporation's most recent general rate proceeding. Charges will not be approved if the corporation's last general rate proceeding was more than three years before the petition was filed or if the adjustment produces revenue exceeding 10% of the base revenue level approved in the corporation's last general rate proceeding. Rates may not be adjusted more than twice a year, and charges may not be collected for more than three years unless the corporation has filed or is the subject of a new general rate proceeding. Estimated monthly charges are subject to annual reconciliation.

DESCRIPTION (continued)

COST RECOVERY FOR SECURITY MEASURES AND RELOCATIONS

The substitute requires the PSC to allow electric, gas, and water corporations to recover from customers prudent costs for security measures, including incremental insurance costs, that were incurred after August 28, 2003, and necessary to comply with federal, state, and local requirements. Requests will be protected from public disclosure. The PSC is also required to allow electric corporations to recover non-reimbursed costs of facility relocations required by highway and other public works projects. Cost recovery will not be approved if the corporation's last general rate proceeding was more than three years before the petition was filed or if the corporation has been the subject of an earnings review. Charges may not be collected for more than three years unless the corporation has filed or is the subject of a new general rate proceeding.

OTHER PROVISIONS

In other provisions, the substitute:

(1) Allows the PSC to approve programs that assist low-income residential customers in obtaining reliable utility service. Terms and conditions must be proposed by an electric or gas corporation, may include energy efficiency, weatherization, and evaluation components, and must not have a negative financial effect on the corporation; and

(2) Requires anyone who acquires an interest of at least 5% ownership in both a public utility regulated by the PSC and an entity that supplies more than $1 million in products per year to the same utility to notify the PSC within 30 days. Failure to report is a class A misdemeanor.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Public Service Commission
Office of Public Counsel

Mickey Wilson

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Director
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